



California Public Employees' Retirement System
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Agenda Item 5d

November 15, 2011

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Draft Audited Basic Financial Statements
- II. **PROGRAM:** Fiscal Services Division
- III. **RECOMMENDATION:** The Finance Committee recommend to the Board of Administration acceptance of the draft basic financial statements, as audited by Macias, Gini, & O'Connell LLP, as of and for the fiscal year ended June 30, 2011, and approval of the letter of transmittal.

IV. ANALYSIS:

Pursuant to section 20228 of the Government Code, the Board of Administration's independent financial statement auditor, Macias, Gini, & O'Connell LLP, completed its audit of CalPERS basic financial statements as of and for the fiscal year ended June 30, 2011. A draft copy of the basic financial statements is attached to this agenda item as Attachment A. Additionally, draft copies of the basic financial statements have been provided to the State Controller's Office and the Bureau of State Audits.

Management is responsible for accurate preparation of the financial statements in accordance with generally accepted accounting principles. The independent auditor expresses an opinion on the financial statements based on their audit. The Office of Audit Services manages the independent auditor contract and facilitates the audit process.

During the audit, management makes both written and oral representations to the independent auditor in response to specific inquiries or through the financial statements. Representation letters acknowledge management's responsibility for the basic financial statements, confirm representations given to the auditor, and reduce the possibility of any misunderstanding between management and the auditor. In connection with the audit and consistent with auditing standards, management provided the independent auditor with a management representation letter. A copy of this draft letter is attached to this agenda item as Attachment B. In addition, the auditor prepared a required communications document.

The draft audit opinion is dated November 16, 2011, the date of the Board of Administration meeting. The auditor's opinion is considered a draft until Board of Administration acceptance of the financial statements and Macias, Gini, & O'Connell LLP signs the opinion. The final signed audit opinion and financial statements will be distributed to the Board of Administration and transmitted to the Governor, the Secretary of the Senate, the Chief Clerk of the Assembly, the State Controller's Office, the Bureau of State Audits and other interested parties as specified in Attachment C.

Fiscal Services Division will provide the Finance Committee a brief presentation of highlights of the basic financial statements for FY 2010-11. Additionally, representatives of Macias, Gini, & O'Connell will present an overview of the audit and required communications.

V. RISK:

Pursuant to section 20228 of the Government Code, the Board of Administration's independent financial statement auditor, Macias, Gini, & O'Connell LLP, completed an audit of the statements. Possible risks if the recommendation is not approved include harm to CalPERS reputation as well as potentially result in additional audit costs to the system.

VI. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan but is part of the ongoing work in Fiscal Services Division.

VII. RESULTS/COSTS:

Acceptance and publication of the audited financial statements fulfills the Board's responsibility for procuring an independent audit under Section 20228 of the Government Code. There are no added costs from the agenda item.

DAVE G. CORNEJO, Acting Division Chief
Fiscal Services Division

RUSSELL G. FONG
Acting Chief Financial Officer